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ABSTRACT

Iceland is one of the six nations of Western Europe which are the last remnants of what was once the most powerful free trading association in the world: the European Free Trade Association (EFTA). EFTA was established in 1959 to foster free trade in industrial goods and to increase trade in agricultural and other products. In addition to the current six member nations (Austria, Finland, Iceland, Norway, Sweden, and Switzerland), the association at one time also included the United Kingdom, Portugal, and Denmark. When the United Kingdom left EFTA for membership in the European Community (EC), EFTA lost its largest partner and any real power in negotiating with its rival, the EC. Despite this, the EFTA nations have maintained favorable trade relations with the EC. However, in 1992, the EC will take a major step toward final political and economic integration, possibly freezing out the EFTA. This paper examines the export economy of Iceland to see what impact further EC integration may have on that economy. The document includes a 19-item bibliography. (Author/JB)

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THE EXPORT ECONOMY OF ICELAND: WHAT 1992 MAY DO TO THE "LITTLE FISH' OF EUROPE

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THE EXPORT ECONOMY OF ICELAND

ABSTRACT

Six European nations--the "forgotten little fish" of Western Europe--today face an unknown and potentially bleak future. These are the six which have loosely joined together as the European Free Trade Association (EFTA). EFTA member nations--Austria, Finland, Iceland, Norway, Sweden and Switzerland--have rejected membership in the EC. Despite refusing membership, EFTA nations have maintained favorable trade relations with the EC. Now, however, in 1992 the EC will take a major step toward final political and economic integration--possibly freezing out EFTA. This paper examines the export economy of one of Europe's "forgotten little fish," Iceland, to see what impact further EC integration may have on that economy.

BACKGROUND

Tradition in Iceland has it that the nation was first inhabited in 874. These earliest permanent inhabitants have been described by some Icelanders as "Norwegian Outlaws;" others prefer to say that the first settlers were "Norwegian Nobleman." Regardless, the original period of settlement by Norsemen continued over a sixty years, ending about 930 A.D.

Throughout most of its history, right up to the 20th Century, Iceland was governed by other countries, first by Norway and later Denmark. Iceland gained its first partial independence on December 1, 1918, but remained essentially a Danish colony until the Republic was founded on June 17, 1944.

At the start of World War II, Iceland was a traditional self sufficient farming and fishing society. The war changed all that. Great Britain, afraid the Germans would use Iceland for air and submarine bases, sent troops to occupy the island. The British built roads, radar bases, houses and other infrastructure, employing needed manpower locally and importing necessary construction equipment and supplies. The economy began to bloom, but at the same time, dramatic social changes were taking place. For example, the population of Reykjavik doubled when the British army came and increased even further when workers from the countryside discovered that well-paid work (compared to then-existing standards) was available in the city.

Despite the economic windfall the British occupation represented, the island's leaders resented the uninvited occupation and feared for their independence at the end of hostilities. The Home Government (then still officially directed by Denmark) asked the U.S. to replace the British. Included in the treaty negotiated with Washington were U.S. guarantees of support for Iceland's complete independence after the war. The U.S., while still not officially at war against Germany at that time, acceded to Iceland's request, signed a defense agreement on July 1, 1941 and one week later American troops arrived (Nuechterlein 1961).

The economy grew even more rapidly under U.S. occupation. Icelanders had at their very doorstep ready markets for all the fish they could catch. And, by providing

labor and supplies for the "foreign troops" stationed on the island, and by chartering their ships to transport war supplies from the U.S. and Canada to the U.K., Iceland came out of the war richer than it had ever been before.

By 1945, Iceland--then with a population of just 140,000 inhabitants-- stood ready to face life as a fiercely independent member of the family of nations. War earnings and Marshall Plan economic recovery assistance funds were invested in new hydraulic power stations and improvements to and increases in the fishing fleet. Iceland's leaders felt confident enough in the strength of their revitalized economy to reject an offer by the United States to build, pay annual rent for, and operate joint military bases on the island. However, by 1949 the country was ready to consider the idea of joining the West in NATO.

By 1950, U.S. economic recovery aid was drawing to a close. At the same time, world events such as the Korean War and Soviet invasion of Czechoslovakia encouraged Iceland's leaders to negotiate a new defense pact with the United States. With the signing of the 1951 defense pact, a considerable flow of economic aid to Iceland followed (Nuechterlein 1961).

Iceland Today.

Iceland politically is as fiercely independent today as it was in 1945. However, developments taking place in the rest of Europe have made it far more difficult for Iceland

to maintain its economic independence. Now, the EC and EFTA have roughly comparable access to each other's markets (except for certain agricultural and fish products). The 1992 completion of the Community's internal market will result in EC countries having better access to EC markets than EFTA countries will. To compete in the new Europe, EFTA producers will have to cut prices to compensate for raised tariffs and non-tariff barriers (Krugman 1988).

ICELAND AND EFTA

Iceland is one of the six nations of Western Europe which together are the last remnants of what was once the most powerful free trading association in the world: the European Free Trade Association (EFTA). EFTA was established in 1959 to foster free trade in industrial goods (internal EFTA tariffs on industrial goods were abolished in 1966), and to increase trade in agricultural and other products. In addition to the current six member nations--Austria, Finland, Iceland, Norway, Sweden and Switzerland--the association at one time also included the United Kingdom (U.K.), Portugal and Denmark. When the U.K. left EFTA for membership in the European Community (EC), EFTA lost its largest partner and any real power in negotiating with its rival, the EC.

Recognizing that their future was irretrievably tied up with the EC, EFTA nations negotiated a major trading agreement with the EC in the early 1970s; it wasn't until

1977 that the agreement was fully implemented. One of the major barriers to earlier implementation had been Iceland's insistence upon gaining more favorable treatment for its fish exports to the EC. When concessions were made to Iceland, they gave preferential treatment to EC imports of Icelandic frozen fish, processed fish meal, fish oil and unprocessed fresh fish. Preferences were not given for salted fish, processed fresh fish (such as fillets), herring or other prepared fish products.

In 1984, ministers of the EC and EFTA came together for the first joint meeting ever. The meeting took place at Luxembourg, and was been described as a "milestone in the course of recent European economic history." (Rowley 1988) The meeting has also been termed "the beginning of a new phase of intensified cooperation between the EC and EFTA." (Hurni 1986)

The purpose of the meeting was to find ways to integrate the economies of the EC and EFTA into what participants labelled a new economic union to be known as the European Economic Space (EES). Within the EES, all remaining barriers to trade in industrial products among the 18 nations are to be eliminated. This does not mean that EFTA will disappear and its six members become, instead, members of the EC. Rather, it was the beginning of a new period of intensified negotiations between the EC and EFTA.

Those negotiations are continuing today, covering such topics as how the economies of the two groups can be further

integrated, adoption of common standards, recognition of others' decisions on product tests, freedom of capital movement and other items. One of the stickiest problems yet to be completely resolved is how the EC will treat imports of Icelandic and other EFTA country's marine products. Gislason (1988) has noted that, with the addition of Spain and Portugal, the size of the fishing fleet of the EC has grown by 75% with the number of fishermen doubling.

Resolution of problems and removal of remaining barriers are critical for Iceland's economy. Exports of fish and fish products account for around three-fourths of the country's export earnings. And, some 59 percent of those fish exports now go to the EC.

The EC uses tariffs to control fish imports, as well as quotas. These tariffs are already adversely affecting imports of salted fish from Iceland, raising the landed price of the product to the point where losses are being suffered by much of this segment of the Iceland industry

Today, EC member nations follow a Common Fisheries Policy (CFP), which will expire in 1991, when a new policy is to be set. Objectives of the CFP are:

1. Ensure the conservation of fish stocks through catch quotas.
2. Strengthen the industry by encouraging technological innovation to ensure competitiveness.
3. Guarantee sufficient supplies of fish types and quality demanded by the market.

4. Negotiate with countries outside the EC (such as Iceland and the U.S.) for fishing rights in waters traditionally fished by EC fisheries, in return for trade preferences or by purchase of licenses.

No where in the CFP is any mention made about the fisheries industry.of EFTA. And, Iceland's leaders have gone on record as stating that no fishing rights will ever be exchanged for trade preferences.

EFTA today faces a new challenge. The EC has announced plans to completely integrate its separate national markets into a single internal market; the target date for this integration is the end of 1992. The purpose of this final integration is the removal of all physical, technical and fiscal barriers to the free movement of products, services, workers and capital (Hurni 1986).

As the EC evolves into the $4 trillion, 320 million population economic powerhouse expected to be born from this integration, some analysts project economic disaster for the non-EC member nations of Europe. EFTA is, however, working very hard to retain its preferred position within the EC. According to Georg Reisch (1989), secretary general of EFTA, "Beyond all possible differences in approach and appreciation, the six EFTA countries have one common aim: to participate as fully as possible in the substance of the single (EC) market." He also recognized that, regardless of the agreements negotiated, EFTA nations will still be

outsiders and thereby subject to any barrier the Community might raise. He cautioned:

> *"The EC reminds us regularly that full participation in the internal market is for members of the Community only. Our aim must therefore be to keep the differences as small as possible."*

Iceland, with a population of just 250,000, is the smallest of the EFTA nations. Its export economy is disproportionately dependent upon a single commodity (fish and fish products), much like many Third World nations. In 1987, 78% of the value of all Iceland exports were fish and fish products. Nearly 60 percent of Iceland's export sales of marine products were to EC markets.

As 1992 approaches, Iceland, like the rest of EFTA, may be forced to bring its political, legal and economic systems closer in line with those of the Community. Willy De Clercq, former EC commissioner for external affairs and trade policy, and the man responsible for negotiations with EFTA in recent years, has stated (Arbose, 1987):

> *"Creating the international market will mean that EC members must give up certain of their national prerogatives and have to accept a certain discipline. EFTA countries cannot at the same time be outside the Community and have exactly the same advantages as EC member states. People have to get it through their heads that they cannot be in and out of the club at the same time."*

Thus far, however, non membership in the EC has not been a major deterrent to economic growth and prosperity for EFTA. Rather, the economies of the six have racked up a record of growth which might be envied by many of the EC member nations. For example, in 1987, GDP per capita for

EFTA was $15,800; for the EC, it was $10,325. The rate of inflation for EFTA was 3%; for the EC, 5.5%. (Table 1)

Table 1. Comparisons: EFTA and the EC.

	EFTA	EC
Population	31.7 million	321.9 million
Member Countries	6	12
GDP Per Capita	$15,800	$10,325
Rate of Inflation	3%	5.5%
Average Unemployment	2.9%	11.5%
Total Budget	$8 million	$41 million
Organization Costs Per Capita	25 cents	$127.00

Overall, Iceland's economy has followed the EFTA pattern. However, last year (1988), the economy of Iceland ended a four-year period of growth, sliding into the sixth recession of the post-war period. Problems within the fishing industry triggered the recession. Two of the key contributors to the cause for the recession were overexpansion in Iceland and depressed prices for Marine Products globally. Prices for Iceland's marine products dropped from six to seven percent in foreign currency terms during 1988.

Iceland has grown increasingly dependent upon the EC for both exports and imports. In 1988, 10% of Iceland's exports were to other EFTA members, whereas the EC absorbed nearly 59% of the country's exports. A similar pattern exists for imports; in 1988, EFTA provided 22.2% of Iceland's imports while the EC provided 51.5%. (Table 2)

Table 2. Distribution of Iceland's Trade.
(in percent of total imports and exports)

	1984	1985	1986	1987	I988
IMPORTS					
EFTA	21.2	22.0	20.6	20.6	22.2
EC	47.3	49.5	52.9	52.1	51.5
Eastern Europe	11.0	8.8	6.5	5.8	5.5
North America	7.4	7.2	7.4	7.5	7.9
Other Countries	11.1	12.5	12.6	14.0	12.9
EXPORTS					
EFTA	12.7	14.2	10.1	8.2	10.0
EC	38.3	39.3	54.1	57.4	58.9
Eastern Europe	9.5	7.8	5.5	4.7	5.4
North America	28.6	27.3	22.0	18.5	13.9
Other Countries	10.9	11.4	8.3	11.2	11.8

The main customer country for Iceland's exports in 1988 was the U.K., which received 23.3% of the total exports. The U.S. holds second place with 13.6%--a share that has declined from 21.7% in 1986 and 27% in 1985. Third largest customer is West Germany, receiving 10.3% of exports, followed by Portugal with 8.5% and Japan with 7.6%.

West Germany is the largest single country supplier of Iceland's imports (14.2%), followed by Denmark (9.2%), Norway (9.1%), Sweden (8.7%), the U.K. (8.2%), the Netherlands (8.1%), the U.S. (7.5%), and Japan (6.9%).

THE EXPORT ECONOMY OF ICELAND

Structure:

Of the four categories of Iceland's exports--Marine Products, Manufactured Goods, Agricultural Products and Services--by far the greatest contributor to the economy is marine products. In 1988, for example, fish and fish products made up a full 71.1% of the value of all merchandise exports. However, this has been as high 94%, which took place in 1965, and as low as 67%, which occurred in 1984. (Table 3)

Several different products make up the marine products portion of Iceland's economy. Of greatest revenue within the exported fish category (in 1988 U.S. dollars; average annual exchange rate) is quick frozen fish products (36.1% of total export revenue). Salted fish comes second with 20.6%, followed by lobster/shrimp/scallops, 11%; fish meal, 8.4%; fish oil, 3.1%; and dried stockfish with 1.14%.

Second in importance to the export economy of Iceland is Manufactured Goods, which, again in 1988 US dollars, make up 22.4% of total export revenue. The largest contributor to this category was Aluminum, with 10.7% of the total export value. Aluminum production is owned and operated by a Swiss multinational firm, ALUSWISS. A complaint of many Iceland residents is that, if it is more profitable to produce in other countries, ALUSWISS can and does shift production from the high-cost Iceland operation to a more

Table 3. Iceland's Major Exports.
(in millions of $U.S. at average annual exchange rates)

Commodity	1985	1986	1987	1988	Percent Change 1987-88
FISH PRODUCTS	821.8	999.2	1,193.0	1,017.1	- 14.7
Salted	121.1	166.9	254.8	209.8	- 17.6
Dried	5.8	26.0	32.0	13.9	- 56.6
Frozen	353.2	379.7	436.0	367.1	- 15.8
Fish Oil	47.9	29.5	21.7	31.4	77.7
Fish Meal	65.8	77.1	65.2	85.8	31.6
Lobster, Shrimp, Scallops	87.3	140.0	139.1	112.1	- 19.4
Salt Herring	28.7	21.3	24.8	25.6	- 0.8
AGRICULTURAL PRODUCTS	15.5	16.9	29.8	24.9	- 16.4
MANUFACTURED GOODS	246.8	256.0	315.2	320.8	1.8
Aluminum	108.8	119.0	150.3	153.8	2.3
Ferrosilicon	39.7	38.5	43.6	56.1	28.7
Other	98.2	98.5	121.3	110.9	- 8.6
OTHER GOODS	15.4	25.5	31.6	68.6	117.1
TOTAL MERCHANDISE EXPORTS	1,099.5	1,297.6	1,576.6	1,431.3	- 9.2
TOTAL SERVICES	N/A	N/A	635.8	547.5	- 13.9
Travel Receipts			98.3	108.6	10.5
AVERAGE ANNUAL $US EXCHANGE	41.87	41.04	38.60	43.09	- 11.6

profitable one in some other country, thus disrupting employment and earnings for Iceland.. Additional resentment surfaces as they feel that when profits are made on the Icelandic plant, only a small part of it (wages of people working plus taxes) are turned over into the local economy. Thus, Icelanders place a question mark by the 10.7% aluminium production's contribution to total export revenue.

Ferrosilicon is the next largest contributor to manufactured goods exports with 3.9% of the merchandise export total. This is followed by wool products with around 2% and animal skins and fur products with nearly 1% of the total.

Agricultural products constitute the third largest category of Iceland's exports. However, all agricultural products add up to only 1.7% of total value of exports . The largest contributor is meat and meat products (0.6%), followed by raw wool (0.2%), and milk products (0.1%).

Most of the exported agricultural products are heavily subsidized, a source of resentment by many non-farm workers in Iceland. The reason is the subsidies are seen to result in artificially high prices for agricultural products at home, while tax monies are paid to the small number of farmers to make up difference between the prices of the products in Iceland and market prices abroad.

The final category of exports is Services. The major contributor to this category is Tourism. The number of

tourists visiting Iceland has been of growing significance as a source of income and jobs for the local economy. A 10.5% increase in the value of Tourism receipts occurred from 1987 to 1988, despite an overall 13.9% decline in the total value of all Services exports.

Export as a Percentage of GDP

The export economy of Iceland as a percentage of Gross Domestic Product (GDP) has, since the foundation of the Republic, fluctuated over the years, but overall has shown a slow but steady increase. It began with 27% in 1945, dropping to a record low of 21% in 1947. In the 1950s, it averaged 28%, but again dropped to the same low of 21% in 1959; it reached a high of 33% in 1954.

The 1960s saw very high percentages for export as a percentage of GDP. These record highs have been attributed to a huge increase in herring sales which occurred at that time. The average for the 1960s was 40%; this included a new record high of 48% in 1962 and a low of 30% in 1967.

The 1970s saw exports average 38% of GDP; the low of 33% occurred in 1974, and the high of 47% in 1970.

In the 1980s (to 1986), exports averaged 38% of GDP. A low of 33% took place in 1982; a high of 42% in 1985. In 1986, exports represented 39.7% of GDP. This level is not expected to have changed significantly since.

These data show that the export sector of Iceland's economy has been of a great and growing significance.

Because exports represent so large a portion of the economy, any changes or fluctuations in exports obviously has a significant impact on the economy as a whole.

Iceland's trade balance for most post-war years has been negative. However, GNP has also shown a slow but steady increase.

INDUSTRY REVIEW: MARINE PRODUCTS

Worldwide consumption of fish and fish products has grown substantially since Iceland embarked on its independent pathway. And, as consumption has grown, so has the importance of fish and fish products to the nation's economy. Iceland's fish export industry has shown nearly constant growth since 1946, and for the most part, remains profitable.

A number of factors have been cited as contributing to the growth of Iceland's fish exports, among which are 1) the relatively high quality of Iceland's fish, 2) excellent marketing efforts by the Iceland fishing industry, 3) the health food trend and decline in consumption of red meats in much of the developed nations and 4), lower availability of fish world-wide.

The Quick-Frozen Sector.

The fact that fish provides more than 70 percent of Iceland's export revenue does not necessarily mean that huge profits are being made. In some sectors of the fish

industry costs exceed revenues. Profitability seems to depend in large part upon which part of the country the fish industry is located.

As an example of the spotty performance of the industry, profits in the quick-frozen sector of the industry in 1987 averaged 0.97%. However, Iceland is divided into nine election areas, and in five of the nine areas, losses occurred. At the low end were Southern Iceland (-2.92%) and the Reykjanes Peninsula (-2.32%). In the four areas in which fish exports were profitable, the Northeast was highest with 6.2%, followed by the Westman Islands/Hornaf Jordur with a profit margin of 3.66%.

Profits were high in the Northeast because several freezer ships are located there. The use of freezer ships significantly increases the value of the catch by adding value at home, rather than exporting unprocessed fresh or chilled fish..

Another reason for the discrepancy in regional earnings is that several firms from Southern Iceland and the Reykjanes Peninsula made mistakes in their sales to foreign markets; they first over-supplied the U.K. market, causing prices to drop severely. They then continued supplying the U.K. with fish so that price dropped further. Instead of selling the fish at home in recently established open fish markets, where moderately profitable prices existed, they took the gamble of selling it abroad, where the trip costs and shipping damage resulted in even greater losses.

Yet another reason for the losses in the unprofitable portions of the industry is that in many cases, instead of utilizing the fish liver that is in high demand, until recently it has simply been discarded at sea.

The Salted Sector.

The salted sector of the Iceland fishing industry enjoys better profit margins, averaging 6.13% in 1987. However, profit performance also varies in this section. That portion of the industry located in Reykjavik had losses of -3.84%, while profit margins in the Northwest sector reached 11.35%

Iceland's share of this portion of the industry in the EC is protected by quotas. The negative side of the quota system is that little or no growth in possible. The government is currently seeking increases in its quota share or removal of the trade barrier entirely.

Much of Iceland's sales of this product had gone to Portugal and Spain, with additional sales other Southern European, African and South American markets. When Portugal and Spain joined the EC, that market became subject to the same EC quotas.

New Developments in the Industry

In order to stay on top of their competition, Iceland has been trying innovative ways of exporting fish. The most recent experiment was high value fresh and/or chilled fish exported by air directly to Japan. The first few flights

have proved successful and profitable. The question left for the future to answer is how much fish will they be able to sell through this channel, at what price, and are there similar opportunities in other countries.

OTHER INDUSTRIES

Aluminum Production.

After marine products, aluminum contributes the next largest share of export revenue. Aluminum production in Iceland began in 1969, attracted there by cheap electric power. Located in Straumsvik, the plant has been a matter of dispute because of pollution; demands for installation of pollution control measures have been reluctantly followed up on. Although the plant has been enlarged several times and production increased, aluminum production as a percentage of export revenue has fluctuated. In recent years (1985, 1986 and 1987), aluminum has been below 10% of the total export revenue.

Wool Production.

Wool and clothing has long been a source of income for Iceland. Once, these products were bartered exclusively with Danish merchants for goods. Since in the mid-1920s, wool has been traded directly by Icelandic companies in foreign markets.

Until 1987 there were two major companies in the wool business in Iceland. They exported similar products through similar channels to similar markets. Those two firms--

Alafoss and Samband--merged in early 1988. The new firm, Alafoss, is being reorganized and restructured.

In an personal interview conducted by one of the researchers with Mr. Jon Sigurdarson, president of the new firm, it was learned that only if Alafoss' restructuring goes as planned has the new company a chance of surviving. Sigurdarson said that a two year restructuring plan is being followed, 1988 has gone according to plans and 1989 looks "all right."

Ferrosilicon Production.

Production of ferrosilicon in Iceland started in 1979. Since then it has enjoyed tremendous growth and become the third largest merchandise export industry in Iceland. Some decline in this product's share of total exports has taken place in recent years, but a significant dollar-value increase occurred in 1987 and 1988 (13.2% and 28.7%, respectively).

EFFECTS OF CURRENCY DEVALUATIONS

Iceland does not have many natural resources other than fish and energy. Growth in exports of fish has enabled Iceland to import the goods needed for the country to develop. Since the end of World War II, growth in Iceland's exports have, in Icelandic Krona, doubled several times from one year to the next. While some of this growth can be traced to modernization and up-grading of the fishing

industry, much must also be traced to the almost regular devaluations of the Krona by the Iceland government.

The ghost of inflation as a result of currency devaluations has constantly haunted the post-war economy, causing Icelanders and others to lose respect in the Krona. At the beginning of 1988, the annual rate of inflation was approximately 25%; from May to July, it reached 35%. A price freeze in August resulted in the rate dropping to 3.9% by October. However, it had increased to double digits once more, reaching nearly 11% by December.

Iceland is a small country; it can almost be said that everyone basically knows everybody else. Because of this, the government has been unwilling to make hard choices which might have had an economic impact on any one segment of the population. Therefore, very large wage increases have been approved to offset increased prices at home caused by devaluation of the currency necessary to make Iceland's products competitive in the global marketplace. The products had become non competitive because of increased production costs caused in large part by very high wage increases. Obviously, it is a viscous circle and one that will continue. Depreciation of the Krona and inflation have become the government's way of dealing with the economy without directly hurting anybody's short term interests. Long term, external reactions to the continued devaluations are no trust in the Krona by foreigners and an attitude that investing in Iceland is risky and not worth the effort.

ICELAND'S OPTIONS

As has been stated above, the six EFTA members have some hard choices to make in the near future. For Iceland specifically, several options for future negotiations have been suggested. These include:

1. Stabilize the economy with the current structure By dropping the very high corporate income taxes and eliminating subsidies and other assistance. While it would probably result in an industry shake-out, this option has several advantages, the greatest of which is that it would maintain the known industrial and social structure of the island.
2. Expand the fishing industry further by investing in additional processing facilities at home. This option has the same advantages as the first option, plus adds value. By adding value and imposing a value added tax (VAT), it could help the government to reduce the negative trade balance. Iceland imports goods having gone through many production stages but the majority of the marine products Iceland sells abroad have had little if any value added. Fresh or chilled fish is practically a commodity. In a sense, the present practice of exporting unprocessed fish is the same as exporting jobs.
3. Expand exports of some product other than fish and fish products while keeping marine product exports

at or only slightly below today's value. Stabilizing the economy this way, while possible the most desirable, may also be the most difficult to bring about. Fish resources are rapidly being depleted. Additional development of the country's energy resources requires the investment of technology and capital. Iceland's high debt makes borrowing more money difficult; lack of confidence in the Krona makes attracting foreign investor's equally difficult. Ideally, as a long-term goal, the exports of the fishing industry should never constitute more than 50% of the total value of all exports.

POTENTIAL FUTURE EXPORT GROWTH AREAS

Iceland has had some experience in turning to new economic endeavors to compensate for adverse developments in others. For example, as a result of cutbacks in traditional agriculture in Iceland during and after World War II, many farmers were forced to come up with new sources of income. Some moved to the towns but others stayed on their family farms, developing mink, fox and fish farms. These were supported by loans and technological assistance provided by the government. Today, those items have become valuable export products, although they are currently in decline and do not have a great potential for further growth.

Most other existing non-marine industries have not been expanded to their limit. For example, despite the continued availability of developed and undeveloped low-cost electrical energy, the aluminum and ferrosilicon industries have not expanded their production significantly in the last decade. Granted that demand for aluminum was soft during that period, but today demand is apparently outstripping available supply.

As noted, production of wool and wool products is currently undergoing a period of reorganization. The skin and fur industries have also had a hard time, having to cut back on their operations in the last half of 1988 because of decreased demand for their products.

Development ideas that have been discussed recently in Iceland include the building another aluminum plant, this one in cooperation with a Canadian firm, ALCAN. However, as of the middle of this year, no agreement on this project had been reached.

Beyond the proposed new aluminum plant, few if any developments in non-fish industries appear on the horizon.

In the interview with Jon Sigurdarson, president of Alafoss, he was asked what he thought was Iceland's future export industry. "Energy," he replied. "We have only utilized about 5% of our hydroelectric power possibilities and (the availability of) oil is diminishing (in the world)". It is possible that transmitting electricity by satellite will become economically feasible in the future.

Producing most substitutes for gasoline requires lots of energy--electricity. Therefore, if not in electrical power specifically, there might be a possibility of utilizing Iceland's enormous sources of energy by establishing petrochemical-substitute and other industries that need a lot of energy to operate.

In the short run, it may be that the only way to stabilize Iceland's economy is to do everything necessary to attract industries from abroad that need large supplies of energy to operate, putting up with some pollution and repatriation of profits. At the same time, ways must be found to add more value to more of the presently exported products.

For the long term, Iceland's future may depend upon the extensive research that is necessary before the direct export of energy via satellite or other method becomes economically feasible.

But without closer ties with the EC, there may not be a long-term future for Iceland. To maintain and reinforce these ties, Iceland appears to be following a three-pronged approach:

1. The government is strengthening its bi-lateral negotiations with the EC and individual EC nations for reduced tariffs on fish and fish products.
2. With other EFTA nations, Iceland is working to add muscle to EFTA itself, agreeing that the combined efforts of the six as EFTA will be the major instru-

ment for negotiating with the EC.

3. Finally, Iceland is examining the large number of production and packaging standards it requires for EC suppliers, with a goal of adapting the standards to EC rules, thus eliminating this class of non-tariff barriers before the 1992 consolidation. In effect, this is the first step in what may be the shifting of all political and economic standards to more closely match those of the EC.

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